

— August 23, 2004 —



Logistics

The Military Departments'
Implementation of Performance-
Based Logistics in Support of
Weapon Systems
(D-2004-110)

— Department of Defense —
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Acronyms

ACAT	Acquisition Category
ADUSD(LP&P)	Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs)
BCA	Business Case Analysis
DAU	Defense Acquisition University
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
PBL	Performance-Based Logistics
SPAWAR	Space and Naval Warfare Command
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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August 23, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS
AND MATERIAL READINESS)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Military Departments' Implementation of Performance-Based Logistics in Support of Weapon Systems (Report No. D-2004-110)

We are providing this report for review and comment. We considered comments from the Acting Deputy Under Secretary of Defense (Logistics and Materiel Readiness), the Army, the Navy, and the Air Force when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Acting Deputy Under Secretary of Defense (Logistics and Materiel Readiness) and the Army comments were responsive. We request that the Navy provide additional comments on Recommendation 2.b. and the Air Force provide additional comments on Recommendation 1.d. We further request that the comments be provided by October 25, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audls@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Terrance P. Wing at (215) 737-3883 (DSN 444-3883) or Ms. Nancee K. Needham at (703) 604-9633 (DSN 664-9633). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Shelton R. Young
Assistant Inspector General
for Readiness and Logistics Support

Office of the Inspector General of the Department of Defense

Report No. D-2004-110
(Project No. D2004LD-0041)

August 23, 2004

The Military Departments' Implementation of Performance-Based Logistics in Support of Weapon Systems

Executive Summary

Who Should Read This Report and Why? DoD civil service, uniformed officers, and Government contractors who are responsible for implementing performance-based logistics (PBL) should read this report. This report discusses the status of the implementation of PBL in the Military Departments.

Background. PBL is the DoD preferred approach for implementing product support. PBL is a strategy for weapon system product support that employs the purchase of support as an integrated performance package designed to bring higher levels of system readiness. PBL delineates outcome performance goals of weapon systems; ensures that responsibilities are assigned; and provides incentives for attaining those goals for the overall life-cycle management of system reliability, supportability, and total ownership cost.

DoD Directive 5000.1, "The Defense Acquisition System," May 12, 2003, provides policies that apply to all acquisition programs. According to the Directive, program managers are required to develop and implement PBL strategies that optimize total system availability while minimizing cost and logistics footprint. The Directive also requires that program managers become the single point of accountability for accomplishing program objectives for total life-cycle systems management, including sustainment. The Fiscal Year 2003-07 Defense Planning Guidance requires that each Military Department submit a plan that identifies its implementation schedule for applying PBL to all new weapon systems and all Acquisition Category I and II fielded systems.

Results. The FY 2003-07 Defense Planning Guidance requires each of the Military Departments to be aggressive in PBL efforts and to submit a plan outlining their strategies. Overall, the Military Departments were implementing PBL strategies for weapon systems, sub-systems, and components; however, with the exception of Navy headquarters, their efforts were inconsistent, processes were inadequate and uncoordinated, and results were undeterminable. As a result, DoD and the Military Departments cannot ensure the effective and aggressive implementation of PBL. The implementation of PBL may not be achieving the goals of improving readiness for major weapon systems or realizing a reduction in logistics support costs. The Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs), in coordination with the Military Departments, should finalize PBL implementation and business case analysis guidance, establish PBL training requirements, and standardize data collection efforts to track the status of PBL efforts. (See the Finding section of the report for the detailed recommendations).

Management Comments and Audit Response. The Acting Deputy Under Secretary of Defense (Logistics and Materiel Readiness) concurred with the finding and recommendations. The Acting Deputy Under Secretary has initiated corrective actions to issue an update to current policies to provide detailed guidance on implementing PBL and preparing business case analyses. In addition, the Acting Deputy Under Secretary is working with the Defense Acquisition University to improve PBL and business case analysis training. Also, the Acting Deputy Under Secretary stated that they are standardizing data fields for Military Departments' status reporting and will establish a quarterly reporting requirement through the Total Life Cycle Management Steering Group. The Deputy Assistant Secretary of the Army (Integrated Logistics Support), responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), generally concurred with the recommendations. However, he partially concurred with issuing policies and procedures for implementation of PBL that incorporates policies and procedures developed by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness). The Deputy Assistant Secretary of the Army stated that PBL policy had been added to existing Army policy and a newly formed PBL integrated product team for the Army is developing additional policies and procedures for business case analysis preparation, performance-based agreements, product support integration, and contracting. The Deputy Assistant Secretary of the Army partially concurred with establishing training requirements. However, he stated that the Army would look at training requirements and course development to determine if additional Army training needed to be developed. The Deputy Assistant Secretary of the Navy (Logistics), responding for the Assistant Secretary of the Navy (Research, Development, and Acquisition), generally concurred with the recommendations but nonconcurred with the recommendation to determine and establish training requirements. The Deputy Assistant Secretary of the Navy stated that more value would be gained by relying on standardized Defense Acquisition University training. The Air Force Assistant Deputy Chief of Staff (Installations and Logistics) generally concurred with the recommendations but only partially concurred with the establishment of quarterly status reporting requirements.

Management comments from Acting Deputy Under Secretary of Defense (Logistics and Materiel Readiness) and the Army were considered responsive. The Navy and the Air Force comments were partially responsive but require more detail. Specifically, we request that the Navy reconsider its position on determining and establishing training requirements for PBL implementation and the Air Force reconsider its position on a status reporting requirement. We further request that the Navy and the Air Force provide comments to the final report by October 25, 2004. See the Finding section of the report for a discussion of the management comments and the Management Comments section of the report for the complete comments.

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Background

Performance-based logistics (PBL) is the DoD preferred approach for implementing product support. PBL is a strategy for weapon system product support that employs the purchase of support as an integrated performance package designed to bring increased levels of system readiness. PBL describes performance goals for weapon system readiness and encourages the creation of incentives for attaining those goals through clear lines of authority and responsibility. PBL delineates outcome performance goals of weapon systems; ensures that responsibilities are assigned; and provides incentives for attaining those goals for the overall life-cycle management of system reliability, supportability, and total ownership cost. In September 2001, the Quadrennial Defense Review¹ advocated implementation of PBL and modern business systems with appropriate metrics to compress the supply chain, eliminate non-value-added steps, and improve readiness for major weapon systems and commodities. The Office of the Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs)(ADUSD[LP&P]) provides oversight for the implementation of PBL within DoD.

DoD Guidance. DoD Directive 5000.1, “The Defense Acquisition System,” May 12, 2003, provides policies that apply to all acquisition programs. According to the Directive, program managers are required to develop and implement PBL strategies that optimize total system availability while minimizing cost and logistics footprint. The Directive also requires that the program managers become the single point of accountability for accomplishing program objectives for total life-cycle systems management, including sustainment.

The FY 2003-07 Defense Planning Guidance requires that each Military Department submit a plan that identifies its implementation schedule for applying PBL to all new weapon systems and all Acquisition Category² (ACAT) I and II fielded systems. Further, the FY 2003-07 Defense Planning Guidance requires that the implementation plans be pursued aggressively.

Spectrum of PBL Strategies. PBL strategies vary depending on the age of the system, existing support infrastructure, organic and commercial capabilities, and legislative and regulatory constraints. PBL strategies include total system support

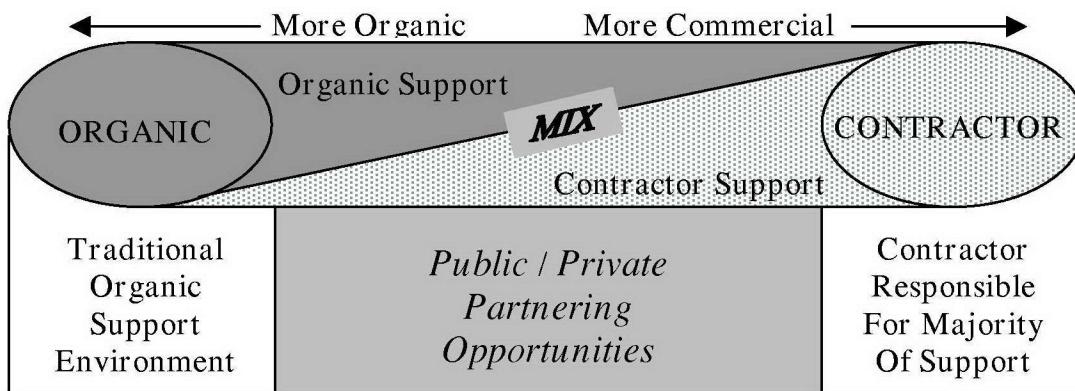
¹ The Quadrennial Defense Review report serves as the overall strategic planning document of the Department of Defense, as required by Public Law 103-62.

² The acquisition category determines an acquisition program’s level of review, decision authority, and applicable procedures. ACAT I programs are acquisition programs with an estimated total expenditure for research, development, test, and evaluation of more than \$365 million or for procurement of more than \$2.19 billion. ACAT II programs have an estimated total expenditure for research, development, test, and evaluation of less than \$365 million but more than \$140 million or for procurement of less than \$2.19 billion but more than \$660 million. ACAT III programs are defined as those acquisition programs that do not meet the criteria for an ACAT I or ACAT II program.

responsibility, industry partnering, service level agreements, performance-based agile logistics support, prime vendor support, contractor delivery system, and performance plans.³

Figure 1 shows the various approaches to PBL.

Figure 1. Spectrum of PBL Strategies



Objectives

Our overall audit objective was to evaluate the Military Departments' reported progress in implementing PBL in accordance with their published schedules. Specifically, we assessed the adequacy and availability of guidance and training related to PBL. This audit is a continuation of work initiated under Inspector General of the Department of Defense Project No. D2003LD-0166, "Research on Military Department Implementation of Performance-Based Logistics in Support of Weapon Systems," December 1, 2003. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives.

³ Derived from "Transforming Logistics Through Performance-Based Logistics," September 23, 2003, ADUSD (Logistics Plans and Programs).

Implementation of Performance-Based Logistics

DoD guidance requires each of the Military Departments to be aggressive in PBL efforts and to submit a plan outlining their strategies. Overall, the Military Departments were implementing PBL strategies for weapon systems, sub-systems, and components; however, with the exception of Navy headquarters, their efforts were inconsistent, processes were inadequate and uncoordinated, and results were undeterminable. That occurred because DoD had not issued adequate PBL implementation guidance or established sufficient oversight. In addition, the Military Departments had not formalized effective PBL guidelines or established training requirements for executing PBL initiatives. Further, the Military Departments lack a standardized data collection system for tracking and reporting PBL implementation status. As a result, DoD and the Military Departments cannot ensure the effective and aggressive implementation of PBL. The implementation of PBL may not be achieving the goals of improving readiness for major weapon systems or realizing a reduction in logistics support costs.

PBL Implementation Schedules and Status

Overall, the Military Departments were implementing PBL strategies for weapon systems, sub-systems, and components; however, with the exception of Navy headquarters, their efforts were inconsistent, processes were inadequate and uncoordinated, and results were undeterminable. The FY 2003-07 Defense Planning Guidance requires each Military Department to submit a plan that identifies its implementation schedule for applying PBL to all new weapon systems and all ACAT I and II fielded systems by May 2002.

Department of the Army. Overall, the Army was attempting to implement PBL strategies for weapon systems according to the implementation plan. However, inconsistent and uncoordinated methodologies were used to determine program candidates and status. Although the Army had developed a method to collect data, its system was inadequate for tracking and reporting PBL implementation to ADUSD(LP&P). The Assistant Secretary of the Army for Acquisition, Logistics, and Technology signed the Army's PBL implementation letter in April 2002. The letter required acquisition managers of all ACAT I and ACAT II programs to assess their programs for implementation of PBL and to submit a listing of candidates for PBL implementation, a listing of candidates not considered appropriate for PBL, and a listing of all ACAT I, II, and III systems or sub-systems for which they felt they had already applied PBL strategies. The Assistant Secretary stated that implementation of PBL for each Army acquisition program should be operationally feasible and able to provide an appropriate return on investment or PBL would not be pursued.

The results of that tasking are summarized in the Army's PBL Implementation Plan, which was submitted to the Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)) in July 2002. The Army used the Office of the Secretary of Defense definition of PBL to determine program candidates in an attempt to maintain consistency within the Army. The Army identified 77 weapon systems, subsystems, or components in the implementation schedule for which they had either implemented PBL or were considering for PBL implementation. The 77 systems, subsystems, and components had some form of PBL strategy in place, such as contractor logistics support or partnering agreements. Some of the programs listed as "PBL implemented" had established partnering arrangements or organic support in place before the requirement for PBL had been established. For example, the Abrams M1A2 Systems Enhancement Package Upgrade Program indicates a PBL strategy implementation start date of 1994. Other Army programs show start dates of 2001 and earlier, before the PBL requirement was established. While those programs are being counted as PBL programs, it is unclear if performance goals, incentives for attaining those goals, and a decision based on a business case analysis (BCA)⁴ were part of the programs. Further, the Army stated that some of those programs began as Army Reduction of Total Ownership Cost initiatives and were based on an economic analysis or best value analysis. The Army determined that it was not cost effective to conduct a BCA on those programs.

The Army input the initial 77 systems, subsystems, or components into a computer spreadsheet for tracking and reporting on the program implementation status. The Army was receiving program status in quarterly reports from the program executive offices. However, most of the 34 data fields in the spreadsheet were not populated and additional information was needed from the acquisition managers to make the tracking mechanism meaningful. The only consistently populated data fields were the name of the system and the point of contact. The field for whether a BCA had been planned or completed was mostly blank, as were the rest of the 32 fields. The PBL implementation status is required by the Army to be updated each quarter; however, the spreadsheet had not been updated since July 2003. As of February 2004, the Army identified a total of 67 PBL programs: 29 actual PBL programs and 38 potential PBL programs with various combinations of PBL strategies applied or planned. Ten programs had been removed from the original 77 programs identified as potential PBL candidates. However, the actual number of Army programs for which PBL has been implemented cannot be determined because of the lack of meaningful information being tracked and reported. As of July 2004, the Army stated it was in the process of developing an automated tracking and reporting system to enhance its ability to track program status.

⁴ A BCA is defined as a tool used to manage business process improvement activities from inception through implementation that identifies functional alternatives and presents economical and technical arguments for carrying out alternatives over the life cycle to achieve stated business objectives or imperatives. Completing a BCA is an integral part of the PBL process.

Department of the Navy. The Navy was aggressively implementing PBL strategies according to its FY 2002 implementation plan. The Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition) issued the Navy PBL Implementation Plan on April 26, 2002. The Navy had been implementing PBL as the preferred product support strategy. For the Navy, PBL is implemented when it improves warfighter support and makes good business sense. Each major acquisition activity provides PBL assessments for its acquisition programs in accordance with the FY 2003-07 Defense Planning Guidance.

The Navy implementation schedule identified 77 weapon systems, subsystems, and components for which it was either implementing some form of PBL or was planning to implement PBL in the future. The Navy implementation plan summarized data from each of the Navy components: Naval Air Systems Command (NAVAIR), which identified 40; Naval Sea Systems Command (NAVSEA), which identified 24; Space and Naval Warfare Command (SPAWAR), which identified 9; and the Marine Corps Systems Command, which identified 4⁵. The Navy also designated the level for which an individual program had implemented PBL and further identified the status by sub-system and single components.

The Navy provided a status report in March 2004 and identified 187 PBL contracts that had either been awarded or were in-process. Of the 187 contracts, NAVAIR had awarded 59 contracts for systems, subsystems, and components and had 25 PBL contracts in-process. NAVSEA had implemented 22 contracts and had 42 contracts in-process. SPAWAR had awarded 15 PBL agreements and had 20 planned. The Marine Corps data remained static at four in-process programs. As of July 2004, the Navy stated that 74 percent of the Navy's ACAT I and II programs were using PBL as product support strategy. Further, the Navy has issued more than 140 PBL contracts and agreements.

As with the Army, many of the Navy programs listed as "PBL implemented" (40) had established partnering arrangements or organic support before the requirement for PBL was issued. We did not determine if performance goals, incentives for attaining those goals, and a decision based on a BCA were part of those programs.

NAVAIR, NAVSEA, SPAWAR, and the Marine Corps PBL implementation information are all tracked separately and differently. The tracking mechanisms could not be easily rolled into one spreadsheet because of different formats and data fields. The Navy PBL implementation status is tracked by the Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition) through data calls sent to all ACAT I and II program offices for program and PBL implementation status. The data call responses are input into a database that is used to track PBL implementation status. Status information is forwarded to ADUSD(LP&P) when requested.

⁵ The Marine Corps has limited ACAT I and II systems.

Department of the Air Force. The Air Force did not track or request PBL implementation status information and was not able to identify how many programs existed for which PBL strategies had been implemented. The Air Force also did not identify programs or schedules in the implementation plan, which was submitted by the Air Force Office of Installations and Logistics on October 7, 2002. Instead, the plan refers the reader to the Air Force product support Internet Web site for review of individual Product Support Management Plans⁶. Additionally, the implementation plan states that Air Force Instruction 63-107, “Integrated Product Support Planning Assessment,” May 29, 2001, requires compliance with DoD 5000.2-R⁷ for the implementation of PBL and the development of a Product Support Management Plan. However, Air Force Instruction 63-107, as written, does not incorporate PBL.

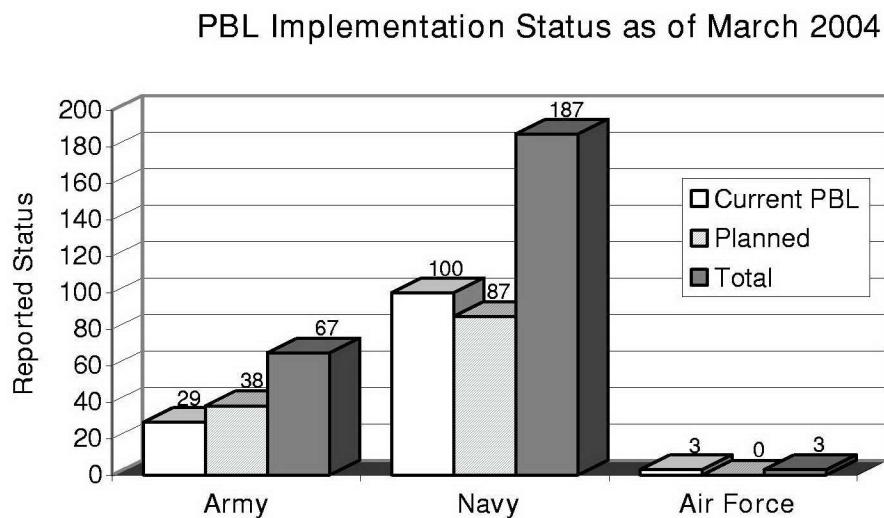
Further discussions with Air Force logistics and acquisition personnel identified three programs for which PBL had been implemented. However, it was unknown whether those three programs contained the necessary components of the PBL requirements. The Air Force may have established additional partnering arrangements or other PBL strategies for programs, but because there was no one responsible for tracking the status of the programs, the correct number of programs for which PBL had been implemented is undeterminable. The overall PBL implementation status was not tracked by the Air Force and the correct information was not being reported to the ADUSD(LP&P).

Total PBL strategies in-process and potential PBL candidates. As of March 2004, the Military Departments provided information showing a total of 257 systems, sub-systems, or components for which PBL had been implemented or planned. However, due to inconsistent, incomplete, and uncoordinated information provided to ADUSD(LP&P), the correct number is undeterminable. The reporting of 257 systems, subsystems, or components may be highly overstated by the Military Departments. That number includes numerous systems that had been initiated before the PBL requirement and, therefore, may not contain PBL performance goal strategies. For some of those systems, an economic analysis had been done instead of preparing a BCA. Figure 2 shows the breakdown of the 257 systems reported by the Military Departments.

⁶ The Product Support Management Plan is an Air Force planning document that links acquisition and logistics processes.

⁷ DoD 5000.2-R was cancelled with the issuance of DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003.

Figure 2. Status of PBL Implementation as reported to ADUSD(LP&P)



Policies, Procedures, and Responsibilities

ADUSD(LP&P) had not issued adequate PBL implementation guidance or established sufficient oversight of the PBL process. In addition, the Military Departments had not formalized effective PBL guidelines or established training requirements for executing PBL initiatives. Although the Army and the Navy had developed their own methods for collecting data, those methods were not consistent within the Military Departments and were not always adequate. The Military Departments need a standardized system for tracking and reporting PBL implementation status to ADUSD(LP&P). ADUSD(LP&P) has put much effort into the implementation of PBL by issuing guidance and policy memorandums, by giving informational briefings, and by developing a tracking database. However, additional guidance and oversight is needed to ensure that consistent policies and practices are followed among the Military Departments and to ensure the effectiveness of PBL implementation.

DoD Guidance and Oversight. The USD(AT&L) has provided several memorandums on PBL. “Performance Based Logistics,” February 13, 2002, tasked the Military Departments to submit PBL implementation schedules no later than May 1, 2002, for all ACAT 1 & II fielded systems and all new programs. “Performance Based Service Acquisitions,” August 19, 2003, tasks the Secretaries of the Military Departments to work towards achieving 25 percent, 35 percent, and 50 percent of contract actions and dollars using performance-based specifications for FYs 2003, 2004, and 2005, respectively. “Designing and Assessing Supportability in DoD Weapon Systems: A Guide To Increased Reliability and Reduced Logistics Footprint,” October 24, 2003, provides a template for program managers to integrate sustainment objectives into performance objectives for increased reliability and reduced logistics footprint

and to provide effective product support through PBL strategies. That memorandum also tasks program managers to meet Quadrennial Defense Review objectives and DoD policy requirements throughout the weapon system life-cycle when defining and assessing program activities. According to the memorandum, PBL is to be the preferred support strategy within DoD, whenever practical, and program managers are to work directly with users to develop and implement PBL agreements.

The Deputy Secretary of Defense issued “Implementation of the Defense Business Practice Implementation Board (DBB) Recommendation to the Senior Executive Council (SEC) on Continued Progress on Performance Based Logistics,” February 4, 2004. The Defense Business Practice Implementation Board Supply Chain Support Task Group recommended a more aggressive approach to implementing PBL. The Deputy Secretary stated that a delay in implementing PBL complicates funding, limits industry flexibility, and increases DoD inventory. The Deputy Secretary further stated that DoD must streamline contracting and financing to buy availability and readiness measured by performance criteria. He directed the USD(AT&L) to issue guidance on purchasing and using performance criteria. He directed the Military Departments to provide a plan in 120 days, to aggressively implement PBL, and to include the transfer of funding on current and planned systems for FYs 2006-2009.

The USD(AT&L) also issued “Performance Based Logistics (PBL) Business Case Analysis (BCA),” January 23, 2004. That memorandum provided guiding principles for preparing a PBL BCA. The guiding principles were structured to support “best value” assessments of product support strategies, consistent with existing PBL guidance. The Military Departments were directed to revise their PBL BCA guidance to incorporate the guidelines. In addition, the ADUSD(LP&P) is in the process of drafting a revised comprehensive DoD PBL BCA Handbook. The completion of a BCA is a valuable tool in assessing a logistics support strategy. The BCA validates decisions, including the selection of PBL support strategies. A BCA is required for all new or ongoing programs or activities forwarded to headquarters for approval when there is a choice or trade-off between two or more alternatives. The Military Departments are awaiting finalized guidance from ADUSD(LP&P) on BCA procedures before formalizing their respective policies. The ADUSD(LP&P) should finalize additional policies for PBL implementation and BCA development as soon as possible so that the Military Departments have a cornerstone for developing their own guidance. In addition, ADUSD(LP&P) had not issued specific definitions of PBL terms. Therefore, the Military Departments were using different definitions for PBL terminology. ADUSD(LP&P) needs to issue a standardized set of definitions in order for the Military Departments to efficiently and consistently make the best choices for PBL implementation. ADUSD(LP&P) should include the standardized definitions in the new handbook.

Military Departments PBL Guidelines. The Military Departments had not formalized adequate PBL guidelines for executing PBL initiatives. The Army has developed draft guidance, “U.S. Army Implementation Guide: Performance-Based Logistics (PBL).” That guidance provides overall guidance on PBL implementation. The Army is also developing guidance on BCA development;

however, as of July 2004, the draft guidance had not been finalized or officially distributed. Army personnel should complete and finalize standardized guidance on PBL that incorporates any new policies and procedures issued by ADUSD(LP&P).

With the exception of SPAWAR and the Marine Corps, whose guidance is still being developed, Navy Components had issued some formal guidance on PBL. The Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition) had issued a comprehensive policy on PBL implementation. Navy headquarters established, "Department of the Navy Performance-Based Logistic Guidance Document," January 27, 2003. That guidance provides a detailed overview of the PBL strategy, characteristics, and responsibilities. It reinforces that PBL is the preferred method of providing weapon system logistics product support. The guidance also provides detailed guidelines for developing a PBL BCA. The guidance was written specifically for the Navy and the Marine Corps as it applies to logistics support by the direction of USD(AT&L). In addition, the Navy has requested that the Center for Naval Analyses provide PBL BCA guidelines. The requested overarching guidelines would apply accepted principles of economic and cost analysis consistent with all the Office of the Secretary of Defense and Navy guidance. The project began in January 2004 and is scheduled to be complete in October 2004.

Secretary of the Navy Instruction 4105.1A, "Independent Logistics Assessment (ILA) and Certification Requirements," March 5, 2004, requires assessments of logistics support programs prior to initial operational capability and full operational capability. The results of Independent Logistics Assessments are the basis for logistics certification and serve as entrance criteria for milestones B, C⁸, and the full rate production decision. Independent Logistics Assessments are to be conducted using guidance in Navy Staff Office Publication-3692, "Independent Logistics Assessment Handbook," December 2003. Navy Staff Office Publication-3692 provides standard assessment criteria for use during an Independent Logistics Assessment. The handbook provides logistics evaluation criteria to be applied to all Navy programs. The advent of PBL requires a new focus on performance requirements, and the handbook provides guidance on evaluation criteria for PBL and PBL BCAs.

NAVSEA issued a memorandum providing background and policy for NAVSEA PBL implementation. The memorandum directs NAVSEA staff to comply with PBL implementation policy. The policies in the memorandum reiterate those found in the DoD Guide, "Product Support for the 21st Century: A Program Managers Guide To Buying Performance," November 2001. NAVAIR Instruction 4081.2, "Policy Guidance for Alternative Logistics Solutions Candidates," September 18, 2002, provides guidance on PBL execution.

⁸ A milestone is the point at which a recommendation is made and approval is sought regarding starting or continuing an acquisition program, such as proceeding to the next phase. Current milestones are: Milestone A, which approves entry into the Technology Development phase; Milestone B, which approves entry into the System Development and Demonstration phase; and Milestone C, which approves entry into the Production and Deployment phase.

Although some PBL guidance had been issued by Navy Components, additional guidance was required, and that guidance was still in draft form as of July 2004.

- NAVAIR Instruction 4081.2A, “Policy Guidance For Performance-Based Logistics Candidates,” is being developed to set forth objectives, establish policies, and describe processes and responsibilities for the evaluation and implementation of PBL candidates for all systems under the NAVAIR program manager’s direction and control. The draft instruction includes three enclosures: “Performance-Based Logistics Process,” “Performance-Based Logistics Block Description,” and “Performance-Based Logistics Candidate Analysis Guidebook.”
- NAVSEA is developing Instruction 4000.7, “NAVSEA Requirements For Implementation of Performance-Based Logistics.” That policy is being developed to establish requirements, roles, and responsibilities regarding PBL execution.
- NAVSEA is also preparing to issue NAVSEA Instruction 4000.8, which will provide BCA guidance, along with a NAVSEA “Program Manager’s Guide to conducting BCAs.” In addition, a draft of NAVSEA/NAVSUP “Program Manager’s Guide to Implementing PBL” is currently under development.
- SPAWAR is preparing SPAWAR Instruction 4105.19, “Guidance for Performance Based Logistics in C4ISR⁹ Programs,” as an implementation directive outlining the roles and responsibilities for PBL in C4ISR programs.
- The Marine Corps is developing a Marine Corps Order, which depicts requirements for the implementation of PBL and Performance Based Agreements.
- In support of the Marine Corps Order, a Marine Corps PBL guidance document is being developed to assist personnel responsible for providing program and component management of weapon systems.

The Assistant Secretary of the Navy (Research, Development, and Acquisition), in conjunction with NAVAIR, NAVSEA, SPAWAR, and the Marine Corps should complete and finalize standardized guidance on PBL that incorporates any new policies and procedures issued by ADUSD(LP&P).

The Air Force had not formalized effective PBL guidelines for executing PBL initiatives. Air Force Instruction 63-107, “Integrated Support Planning and Assessment,” May 29, 2001, as written, does not incorporate PBL. A memorandum, “Product Support Partnerships and Depot Maintenance Integration,” April 15, 2002, provides interim guidance on product support partnering. That policy states that sustainment support should be pursued through public and private partnering using PBL contracts; however, it does not give

⁹ C4ISR stands for Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance.

further instruction to the Air Force on incorporating PBL. Air Force personnel are updating Air Force Instruction 63-107 to include additional guidance on PBL and to incorporate the interim guidance from the USD(AT&L) memorandum of January 23, 2004. The revised instruction will also provide additional guidance on Product Support Management Plan and BCA preparation. The Product Support Management Plan is a planning document that links all logistics processes and is updated biennially or at major program events. Air Force personnel estimate that the revised Air Force Instruction 63-107 will be completed in September 2004. Air Force personnel should complete and finalize standardized guidance on PBL that incorporates any new policies and procedures issued by ADUSD(LP&P).

Standardized Training. The Military Departments did not establish training requirements for executing PBL initiatives. ADUSD(LP&P) and the Military Departments need to ensure that PBL participants understand the roles, responsibilities, and implementation procedures. However, DoD guidance does not adequately define specific implementation training requirements for the user community. The Military Departments should develop a separate PBL training program for activities that are implementing PBL. ADUSD(LP&P) should identify training opportunities and encourage Military Department participation in Defense Acquisition University (DAU) training.

Army Training. The Army did not establish training requirements for executing PBL initiatives. Army management acknowledged that there is a lack of training provided for PBL. The Army plans to use training that is available through DAU Logistics 235: "Performance-Based Logistics," and mobile training units provided by DAU. As of July 2004, the Army stated that DAU had conducted mobile training at five Army locations and had one more scheduled and one proposed. A self-paced online PBL overview module is also available through DAU. The Army should develop training requirements for executing PBL initiatives to ensure that its staff is adequately trained.

Navy Training. The Navy did not establish training requirements for executing PBL initiatives. Navy headquarters did not establish PBL training requirements for program office staff and associated support, even though it acknowledged the lack of PBL training as a barrier to successful PBL implementation in its May 1, 2002, implementation plan. Of the four Navy components, NAVAIR has developed a training brief on PBL and has been aggressive in developing training for NAVAIR staff. NAVSEA and SPAWAR plan to rely on training from DAU PBL courses. In addition, SPAWAR is also relying on training provided through the mobile training unit. The Marine Corps staff had not received any formal DAU training and had not developed any of its own training. The Assistant Secretary of the Navy (Research, Development, and Acquisition) and each Component should develop training requirements for executing PBL.

Air Force Training. The Air Force did not establish training requirements for executing PBL initiatives. The Air Force did not establish PBL training requirements for program office staff and associated support, even though it acknowledged the lack of PBL training as a barrier to successful PBL implementation in its implementation plan. The Air Force also identified a lack

of training on developing performance measures as a barrier to successful PBL implementation. According to Air Force representatives, a Web-based PBL training tool is currently under development. Additionally, once Air Force Instruction 63-107 is finalized in September 2004, it will begin training its staff on the new guidance by establishing mobile training units. Upon completion of Air Force Instruction 63-107, the Air Force should develop training requirements for executing PBL initiatives to ensure that its staff is adequately trained.

Standardized Data Collection. ADUSD(LP&P) did not establish sufficient oversight on the implementation and tracking of PBL programs. The Military Departments lacked a standardized data collection system for tracking and reporting PBL implementation status. The Air Force did not establish a method for tracking status. Although the Army and the Navy had developed their own methods for tracking the status, those methods were not consistent within the Military Departments and were not always adequate. The data collected was inconsistent and, therefore, difficult to analyze. ADUSD(LP&P) is responsible for overseeing the implementation status of PBL within the Military Departments and needs consistent data in order to establish effective oversight and to determine if logistics goals are being achieved.

USD(AT&L) requested that ADUSD(LP&P) be responsible for overseeing the implementation status of PBL for the Military Departments. To accomplish that task, ADUSD(LP&P) requested periodic updates on the status of PBL implementation from the Military Departments. ADUSD(LP&P) personnel have been provided that data from the Army and the Navy upon request. However, as of May 2004, the Air Force was still unable to determine the implementation status of weapon systems. Without the data from the Air Force, ADUSD(LP&P) cannot effectively oversee the implementation status of PBL for the Military Departments. ADUSD(LP&P) should require that the Air Force establish a PBL point of contact who will be able to provide the status information as requested by ADUSD(LP&P).

ADUSD(LP&P) is developing a database that is Web-based and will enable access for each of the Military Departments. The database is very detailed and contains many fields for status information. When populated with data from each of the Military Departments, ADUSD(LP&P) will have an efficient system with quarterly updated PBL status reports. However, ADUSD(LP&P) needs to require the Military Departments to collect, populate, and report data on all PBL systems in the same format. ADUSD(LP&P) should require that the Military Departments report data, on a periodic basis, using this standardized collection system.

Conclusion

Overall, with the exception of the Navy, the Military Departments are not aggressively implementing PBL strategies. While the Army and the Navy are counting many programs under a PBL category, many of those programs do not contain all the elements of a PBL strategy. PBL implementation was not achieving the goals of improving readiness for major weapon systems or realizing a reduction in logistics support costs because standardized guidance did not exist

for implementing PBL, sufficient oversight had not been established, and training requirements had not been determined. In addition, an efficient status tracking system had not been developed by the Military Departments, with the exception of Navy headquarters. Therefore, DoD cannot ensure effective implementation of PBL strategies. The lack of adequate guidance for implementing PBL caused each of the Military Departments to develop systems and guidance in order to begin the process of PBL implementation, but the systems and guidance were not standardized, consistent, or compatible. Appendix C contains additional barriers to PBL implementation.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs), in coordination with the Military Departments:
 - a. Finalize written guidance that defines performance-based logistics terminology and the Military Departments' responsibilities for implementing performance-based logistics for weapon systems, sub-systems, and components.
 - b. Establish written guidance that defines the requirements, process, and procedures for developing a business case analysis to determine potential performance-based logistics candidates.
 - c. Finalize a standardized data collection format that contains all of the data fields determined necessary to accurately track the status of performance-based logistics efforts.
 - d. Establish requirements for quarterly reports or updates to all required fields of the standardized data collection format.

Deputy Under Secretary of Defense (Logistics and Materiel Readiness) Comments. The Acting Deputy Under Secretary of Defense (Logistics and Materiel Readiness) concurred with Recommendation 1.a. The Acting Deputy described additional guidance that is being written to provide detailed guidance on PBL implementation. The Acting Deputy is updating the current Product Support Guide, and is writing a new chapter on Life Cycle Logistics in the Defense Acquisition Guidebook. The publications are scheduled for release in early fall 2004.

The Acting Deputy concurred with Recommendation 1.b. The Acting Deputy stated that the product support guide will include guidance on performing a PBL BCA. The guide is being developed in consonance with the Military Departments and industry members of the Total Life Cycle Systems Management Steering Group. In addition, the Acting Deputy's office is working with the DAU to improve PBL training and guidance for developing a PBL BCA.

The Acting Deputy concurred with Recommendation 1.c. The Acting Deputy's office is currently collecting Military Department PBL implementation information on an ad-hoc basis. Current plans are to standardize the data fields for Military Department reporting. The Office of the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) will work with the Military Departments through the Total Life Cycle Management Steering Group to determine the standardized data fields and establish reporting formats.

The Acting Deputy concurred with Recommendation 1.d. The ADUSD(LP&P) will establish the requirement through the Total Life Cycle Management Steering Group.

Army Comments. The Deputy Assistant Secretary of the Army (Integrated Logistics Support), responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), concurred with Recommendation 1.a., 1.b., 1.c., and 1.d.

Navy Comments. The Deputy Assistant Secretary of the Navy (Logistics), responding for the Assistant Secretary of the Navy (Research, Development, and Acquisition), concurred with the Recommendation 1.a., 1.b., 1.c., and 1.d.

Air Force Comments. The Department of the Air Force, Assistant Deputy Chief of Staff (Installations and Logistics) concurred with Recommendation 1.a., 1.b., and 1.c., but only partially concurred with Recommendation 1.d. The Assistant Deputy concurred with the issuance of guidance and standardized reporting formats for PBL activities, but did not concur with quarterly reporting requirements. The Assistant Deputy stated that criteria and action for quarterly reporting had not been established and that occasional or "as required" reporting of PBL activities is adequate. In addition, the Assistant Deputy stated that quarterly reporting would tax already scarce resources for undetermined benefits.

Audit Response. The Air Force comments on Recommendation 1.d. are partially responsive. We disagree with the Assistant Deputy that "as required" reporting of PBL activities is adequate. As stated in the report, the ADUSD(LP&P) is responsible for overseeing the implementation status of PBL for the Military Departments. The ADUSD(LP&P) will need consistent and timely updates to maintain current oversight of the implementation. The criteria and action for quarterly reporting will be established by the ADUSD(LP&P) through the Total Life Cycle Management Steering Group. We also disagree that the quarterly reporting would tax resources, as only programs with PBL implementation changes would require an update on the quarterly report.

2. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); the Assistant Secretary of the Navy (Research, Development, and Acquisition); the Air Force Deputy Chief of Staff (Installations and Logistics); and the Marine Corps Deputy Commandant, Installations and Logistics:

a. Issue policies and procedures for implementation of performance-based logistics, to include preparation of a business case analysis that incorporate the policies and procedures that the Assistant Deputy Under

Secretary of Defense (Logistics Plans and Programs) will develop based on Recommendations 1.a., 1.b., and 1.c.

- b. Determine and establish performance-based logistics training requirements for executing PBL initiatives.

Army Comments. The Deputy Assistant Secretary of the Army (Integrated Logistics Support), responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), partially concurred with Recommendation 2.a. The Deputy referred to the Army's PBL implementation guidance dated April 1, 2002, and July 8, 2002, stating that PBL can be applied at the system, subsystem, or component level. Many of the Army's ongoing and planned PBL programs are at the subsystem and component level. The Deputy stated that PBL policy has been added to several Army guidance documents. In addition, the Army has formed an Army PBL integrated product/process team that is developing additional policies and procedures to include BCAs, performance-based agreements, a product support integrator, and contracting.

The Deputy Assistant Secretary of the Army (Integrated Logistics Support) partially concurred with Recommendation 2.b. The Deputy stated that the Army takes maximum advantage of PBL training provided by the DAU. The Army PBL integrated product team will review additional training requirements and course development and determine if Army-unique training needs to be developed.

Audit Response. Although the Army partially concurred with Recommendation 2.a. and 2.b., Army comments are responsive.

Navy Comments. The Deputy Assistant Secretary of the Navy (Logistics), responding for the Assistant Secretary of the Navy (Research, Development, and Acquisition), concurred with Recommendation 2.a. but did not concur with Recommendation 2.b. The Deputy Assistant stated that the Navy does not concur that each Service and component within the Services should establish independent PBL training programs. The Deputy Assistant stated that relying on standardized DAU training would ensure that PBL is instituted consistently throughout DoD.

Audit Response. The Navy comments on Recommendation 2.b. are partially responsive. The recommendation requires the determination and establishment of PBL training requirements for executing PBL initiatives, not the establishment of training programs. We request that the Navy reconsider its position on Recommendation 2.b. to determine and establish training requirements and provide additional comments in response to the final report. The comments should identify specific actions that will meet the intent of the recommendation.

Air Force Comments. The Department of the Air Force, Assistant Deputy Chief of Staff (Installations and Logistics) concurred with Recommendation 2.a. and 2.b.

Appendix A. Scope and Methodology

For each Military Department, we evaluated their progress in implementing PBL in accordance with their published implementation schedules. We assessed the adequacy and availability of PBL guidance. We also assessed the adequacy of PBL training for personnel.

We interviewed personnel responsible for PBL at the ADUSD (LP&P); the Assistant Secretary of the Army (Acquisition, Logistics and Technology); the Office of the Assistant Secretary of the Navy (Research, Development and Acquisition); the Air Force Assistant Deputy Chief of Staff (Installations and Logistics); NAVAIR; NAVSEA; SPAWAR; and the Marine Corps Systems Command.

We reviewed section 2464, title 10, United States Code (10 U.S.C. 2464), “Necessity for Core Logistics Capabilities,” January 22, 2002; 10 U.S.C. 2466, “Percentage Limitation,” January 22, 2002; 10 U.S.C. 2469, “Requirement for Competition,” January 22, 2002; and 10 U.S.C. 2474, “Centers of Industrial and Technical Excellence: Designation; Public-Private Partnerships,” January 22, 2002. In addition, we reviewed DoD 7000.14-R, “DoD Financial Management Regulation,” June 2002; DoD Directive 5000.1, “The Defense Acquisition System,” May 12, 2003; DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003; and “Implementation of the Defense Business Practice Implementation Board Recommendation to the Senior Executive Council on Continued Progress on Performance Based Logistics,” February 4, 2004. We also reviewed “Quadrennial Defense Review Report,” September 30, 2001; “Product Support: A Program Manager’s Guide to Buying Performance,” November 2001; “Business Case Model for the DoD Logistic Community: A Guide to Business Case Development,” September 30, 1999; and both draft and final versions of PBL guidance developed by USD(AT&L) and each of the Military Departments.

We performed this audit from December 2003 through May 2004 in accordance with generally accepted government auditing standards.

We limited our scope and did not evaluate management controls. We did not evaluate the management controls program because PBL is a strategy for weapon system product support that is still in the early phases within DoD. We limited our scope to addressing the progress of the Military Departments in implementing PBL in accordance with their published schedules and assessing the adequacy and availability of guidance and training.

Use of Computer-Processed Data. We relied on limited computer-processed data to perform this audit. The use of computer-processed data was limited to data provided by the Military Departments on the status of PBL programs and implementation of PBL.

Government Accountability Office High-Risk Area. The Government Accountability Office (GAO) has identified high-risks areas in DoD. This report provides coverage of the DoD Weapon System Acquisition high-risk area.

Appendix B. Prior Coverage

During the last 5 years, the GAO, the Inspector General of the Department of Defense (IG DoD), and the Naval Audit Service have issued nine reports discussing PBL. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

GAO

GAO Report No. GAO-04-715, “Opportunities to Enhance the Implementation of Performance-Based Logistics,” August 16, 2004

GAO Report No. GAO-02-306, “Opportunities to Improve the Army’s and the Navy’s Decision-making Process for Weapons Systems Support,” February 28, 2002

IG DoD

IG DoD Report No. D-2004-021, “Effectiveness of Maintenance Work Performed Under Contract FA4452-01-C-0001 at Andrews Air Force Base,” November 19, 2003

IG DoD Report No. D-2003-120, “F/A-18E/F Integrated Readiness Support Teaming Program,” August 8, 2003

IG DoD Report No. D-2002-112, “Industrial Prime Vendor at the Air Force Air Logistics Centers,” June 20, 2002

Navy

Naval Audit Service Audit Report No. N2003-0050, “Contractor Logistics Support Oversight,” May 15, 2003

Naval Audit Service Audit Report No. N2003-0024, “Contractor Logistics Support at the Naval Air Systems Command,” January 29, 2003

Naval Audit Service Audit Report No. N2002-0069, “Contractor Logistics Support at the Space and Naval Warfare Systems Command,” August 8, 2002

Naval Audit Service Audit Report No. N2002-0049, "Contractor Logistics Support at the Naval Sea Systems Command," May 17, 2002

Appendix C. Additional Barriers to Performance-Based Logistics Implementation

Legislative and Regulatory Constraints on PBL Implementation. Several barriers to the effective implementation of PBL exist, including section 2464, title 10, United States Code (10 U.S.C. 2464); core capability requirements; the 50-50 requirements; the lack of funding flexibility; and multi-year contracting authority.

Core Capability. The core logistics capability required by 10 U.S.C. 2464 deems that DoD shall:

maintain a core logistics capability that is Government-owned and Government-operated (including Government personnel and Government-owned and Government-operated equipment and facilities) to ensure a ready and controlled source of technical competence and resources necessary to ensure effective and timely response to a mobilization, national defense contingency situations, and other emergency requirements.

The statute requiring the core capability is problematic to the implementation of PBL. DoD does not have the resources to develop organic depot-level repair capabilities for legacy systems that are currently being repaired commercially. The core designation hinders the Military Departments' flexibility for establishing PBL strategies.

50-50 Workload Limitations. The limitation on the performance of depot-level maintenance of material as required by 10 U.S.C. 2466 deems that:

not more than 50 percent of the funds made available in a fiscal year to a military department or a Defense Agency for depot-level maintenance and repair workload may be used to contract for the performance by non-Federal Government personnel of such workload for the military department or the Defense Agency. Any such funds that are not used for such a contract shall be used for the performance of depot-level maintenance and repair workload by employees of the Department of Defense.

In addition, as amended by the “National Defense Authorization Act for Fiscal Year 2000,” the statute requires the DoD to submit two reports to Congress annually on public and private sector depot-level maintenance and repair workloads. The first is to report on the percentage of funds associated with such workloads during the preceding two fiscal years. The second is to report projected expenditures for the current and four succeeding fiscal years. The following table shows the depot-level maintenance workload allocations for each fiscal year and future projections.

Depot-Level Maintenance Work Allocated to the Private Sector*								
	<u>Fiscal Year</u>							
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Army	44.9%	47.8%	46.5%	41.5%	43.7%	40.1%	42.5%	40.9%
Navy/ Marine Corps	43.3%	45.3%	42.6%	45.4%	49.1%	48.3%	46.5%	42.5%
Air Force	51.5%	52.3%	45.8%	48.0%	45.0%	43.6%	43.2%	44.5%

* Obtained from DoD 50-50 Reports dated February 4, 2002; April 12, 2002; February 11, 2003; April 7, 2003; and April 6, 2004.

Section 2466, title 10, United States Code also requires GAO to submit opinions on the reports to Congress on whether DoD complied with the 50-50 requirement in the prior-years report and whether the projections in the future-years report are reasonable. GAO has repeatedly reported that continuing weaknesses in DoD data gathering and reporting has prevented GAO from determining whether the Military Departments were in compliance with the 50-50 requirements. Data submitted to Congress shows that the Military Departments are below the 50 percent funding limitation on private sector work, with the exception of the Air Force, which exceeded the limit in FYs 2000 and 2001.

GAO also found errors and omissions that, if corrected, will increase the overall percentages of funding going to the private sector and move each Department closer to the limits.* The 50-50 limitations also hinders the Military Departments' flexibility in initiating PBL strategies.

Funding Flexibility and Multiyear Contracting. Another barrier to the effective implementation of PBL programs is the lack of funding flexibility and the lack of authority to execute multi-year PBL contracts. DoD believes program managers should be able to respond to funding fluxuations by using procurement and operation and maintenance appropriations to fund PBL contracts and by having the authority to reprogram those funds as needed without Congressional approval. The Office of the Secretary of Defense is seeking the authority to use multi-year contracting (3 to 5 years or more) in order to enable the contractor to reduce investment risk, maximize efficiencies, and manage obsolescence of parts being issued. DoD has requested that Congress substantially increase the amount

* Derived from GAO-03-1023, "Depot Maintenance: DoD's 50-50 Reporting Should Be Streamlined," September 2003.

of money that can be reprogrammed among appropriations and for the authority for program managers to enter into multi-year contracts. However those requests have not been approved.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Director, Program Analysis and Evaluation
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)
Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Acquisition, Logistics and Technology)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Naval Inspector General
Auditor General, Department of the Navy
Marine Corps Assistant Commander for Acquisition Logistics
Marine Corps Deputy Commandant, Installations and Logistics

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Deputy Chief of Staff (Installations and Logistics)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Deputy Under Secretary of Defense (Logistics and Materiel Readiness) Comments



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

JUL 13 2004

MEMORANDUM FOR PROGRAM DIRECTOR, READINESS AND LOGISTICS SUPPORT
OFFICE OF THE DOD INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *7/19/04*
7/15/04

SUBJECT: Response to DODIG Draft Report D2004LD-0041, "Military Departments' Implementation of Performance Based Logistics in Support of Weapons Systems," May 18, 2004.

As requested, I am providing the response to the four-part recommendation contained in the subject report. You recommended that the Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs), in coordination with the Military Departments:

Recommendation 1a: Finalize written guidance that defines performance-based logistics (PBL) terminology and the Military Departments' responsibilities for implementing performance-based logistics for weapons systems, sub-systems, and components.

Logistics and Materiel Readiness response: Concur. In addition to the various OSD-level guidance memoranda and documents mentioned on page 7 of the draft report, Logistics Plans and Programs (LP&P) is also working on an update to the current Product Support Guide, and a new chapter on Life Cycle Logistics in the new Defense Acquisition Guidebook. The Guidebook replaces policy that was originally found in the DoD Regulation 5000.2-R. The Guidebook will contain top-level PBL implementation guidance to Program Managers. The new Product Support Guide, entitled Performance-Based Logistics: A Program Manager's Guide to Product Support, is also being written to provide detailed guidance on PBL implementation. Both publications are scheduled for release in late summer/early fall 2004.

Recommendation 1b: Establish written guidance that defines the requirements, process, and procedures for developing a business case analysis to determine potential performance-based logistics candidates.

Logistics and Materiel Readiness response: Concur. The PBL product support guide mentioned in response 1a above will include guidance on performing a PBL Business Case Analysis. The BCA guidance will build on the existing policy memoranda mentioned on pages 7-8 of the draft report. It is being developed in consonance with the Services and industry members of the Total Life Cycle Systems Management Steering Group. Additionally, LP&P is working with the Defense Acquisition University to improve PBL training, to include developing improved training and guidance for developing PBL BCAs.



Recommendation 1c: Finalize a standardized data collection format that contains all of the data fields determined necessary to accurately track the status of performance-based logistics efforts.

Logistics and Materiel Readiness response: Concur. L&MR is currently collecting Service PBL implementation information on an ad-hoc basis. Current plans are to standardize the data fields for uniform Service reporting. L&MR will work with the Services through the Total Life Cycle Management Steering Group to determine the standardized data fields and establish reporting formats.

Recommendation 1d: Establish requirements for quarterly reports or updates to all required fields of the standardized data collection format.

Logistics and Materiel Readiness response: Concur. Quarterly reporting should provide adequate update coverage for the standardized PBL data fields mentioned in the response to recommendation 1c above. LP&P will establish this requirement through the total Life Cycle Management Steering Group.

Questions regarding this memorandum may be directed to Mr. Anthony Stampone at 703-614-3838 or at Anthony.Stampone@osd.mil.



Bradley Berkson
Acting

Department of the Army Comments



DEPARTMENT OF THE ARMY
DEPUTY ASSISTANT SECRETARY OF THE ARMY
INTEGRATED LOGISTICS SUPPORT
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

14 July 2004

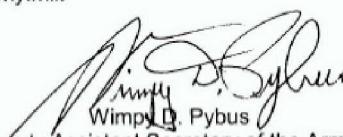
SAAL-ZL

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Army Comments to Draft DoDIG Report on Implementation of
Performance-Based Logistics in Support of Weapon Systems
(Project No. D2004LD-0041)

We have reviewed the subject draft report and have provided our comments at the enclosure.

The points of contact for this action are Mr. Larry W. Hill, (703) 604-7450, or e-mail: larry.w.hill1@us.army.mil and Mr. Michael D. Connor, (703) 604-7370, or c-mail: michael.d.connor@us.army.mil.



Wimpy D. Pybus
Deputy Assistant Secretary of the Army
Integrated Logistics Support

Enclosure

CF:
Director, Army Audit Agency

Army Comments to Draft DoDIG Report on Implementation of Performance-Based Logistics in Support of Weapon Systems (Project No. D2004LD-0041)

1. The Army concurs with recommendation 1.a. - d. in the draft DoDIG report. However, the Army only partially concurs with recommendation 2.a. and 2.b.

a. Recommendation 2.a. Partially concur. The Army's performance-based logistics (PBL) implementation guidance to its Program Executive Officers (PEOs) and Program Managers (PMs), dated 1 April 2002 and 8 July 2002, states that PDL can be applied at the system, subsystem, or component level. Many of the Army's ongoing and planned PBLs are at the subsystem and component level. PBL policy has been added to AR 70-1, Army Acquisition Policy and AR 700-142, Materiel Release, Fielding, and Transfer. It is also included in the ongoing revision to AR 700-127, Integrated Logistics Support and DA PAM 700-56, Supportability Planning and Procedures in Army Acquisition. Furthermore, under the auspices of the newly formed Army PBL Integrated Product/Process Team (IPT), the Army is developing additional policies and procedures to include business case analyses (BCAs), performance-based agreements (PBAs), product support integrator (PSI), and contracting.

b. Recommendation 2b. Partially concur. Army PBL training takes maximum advantage of Defense Acquisition University (DAU) PBL training courses and 'Roadshows'. The Army has provided a speaker in the DAU PBL 'Roadshows' to Army organizations in order to brief the Army PBL implementation strategy/approach. To date, the DAU has conducted PBL 'Road shows' at five (5) Army locations with one (1) more scheduled and one (1) proposed. The Army PBL IPT will look at additional training requirements and course development, and will determine what, if any, Army-unique training needs to be developed.

2. Other Army comments on the draft DoDIG report are as follows:

a. Page 3, PBL Implementation Schedules and Status - Department of the Army, second sentence of first paragraph. The Army used the Office of the Secretary of Defense (OSD) definition for PBL to determine program candidates so there would not be inconsistency within the Army. The Army tracks program status through the quarterly reports submitted by the PEOs. However, we are in the process of developing an automated tracking and reporting system to enhance our ability to track program status.

b. Page 4, PBL Implementation Schedules and Status - Department of the Army, second paragraph. Army Reduction of Total Ownership Cost (RTOC) initiatives, as the forerunner to Army PBL, were based on economic analyses (EAs) or best value analyses (BVAs). For systems already in the implementation stage, it was not cost-effective to have them go back and conduct a BCA.

c. Page 4, PBL Implementation Schedules and Status - Department of the Army, third paragraph. Referenced spreadsheet was used as tracking mechanism when PBL implementation was just underway but BCAs were not required or done yet.

Revised
Page 3 and 4

Revised

Revised

We are in the process of developing an automated system to enhance our tracking capability.

d. Page 6, Policies, Procedures, and Responsibilities, first sentence of first paragraph. The Army supported DAU as being responsible for developing PBL training rather than develop service-unique training.

e. Page 6, Policies, Procedures, and Responsibilities, second sentence of first paragraph. The Army has had a standard reporting format and mechanism in place since October 2002 and received reports from our PEOs on a quarterly basis.

f. Page 6, Policies, Procedures, and Responsibilities, last sentence of first paragraph. This report needs to identify what type and level of additional guidance is needed.

g. Page 10, Policies, Procedures, and Responsibilities – Standardized Training, Army Training. DAU is conducting PBL training through PBL ‘Roadshows’. The Army has participated as a speaker in the DAU PBL ‘Roadshows’ to Army organizations in order to brief the Army PBL implementation strategy/approach. To date, the DAU has conducted PBL ‘Road shows’ at five (5) Army locations with one (1) more scheduled and one (1) proposed. The Army PBL IPT will look at additional training requirements and course development, and will determine what, if any, Army-unique training needs to be developed.

h. Page 11, Conclusion. Disagree. The Army is aggressively implementing PBL strategies through accomplishment of the following:

- (1) Establishment of an Army PBL IPT. The DASA (ILS) and HQ AMC G3 signed the Army PBL IPT charter in June 2004. The IPT, co-chaired by ODASA(ILS) and HQ AMC G-3 office, held its kickoff meeting on 1 July 2004. IPT members include representatives from the Army G4, AMC HQs, FORSCOM, TRADOC, AMC MSCs, DASA (CE), PEOs, and DLA. Sub-IPTs include Business Case Analyses (BCAs), Performance Based Agreements (PBAs), Metrics, Product Support Integrator (PSI), Contracting Strategies, Automation and Reporting, etc.
- (2) Additional key PBL actions. These include incorporating PBL in to Army acquisition/logistics regulations, updating the Army PBL Implementation Guide, conducting and attending PBL training at the DAU, and integration of PBL with the Army DLA Partnership Agreement Council (PAC) and Supply Chain IPTs.

Page 7

Revised
Page 7

Page 7

Revised
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Page 12

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

JUL 13 2004

MEMORANDUM FOR THE DOD ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: COMMENTS ON DRAFT DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DoDIG) AUDIT REPORT #D2004LD-0041, REPORT ON THE MILITARY DEPARTMENTS' IMPLEMENTATION OF PERFORMANCE-BASED LOGISTICS IN SUPPORT OF WEAPON SYSTEMS OF 18 MAY 2004

Ref: (a) DoDIG Memo dated 18 May 2004

Encl: (1) DoN Comments on Draft DoDIG Audit Report D2004LD-0041

In response to reference (a), enclosure (1) is forwarded. Any additional questions on this response should be directed to CAPTAIN Basil Gray at (703) 697-2018. His e-mail address is basil.gray@navy.mil.

A handwritten signature in black ink, appearing to read "Nicholas J. Kunesh".

Nicholas J. Kunesh
Deputy Assistant Secretary of the Navy
(Logistics)

Copy to:
ADUSD (LPP)
Naval Inspector General (N4)
CNO (N4)

**DEPARTMENT OF THE NAVY COMMENTS
ON
DODIG DRAFT REPORT OF 18 MAY 2004
ON
THE MILITARY DEPARTMENTS' IMPLEMENTATION OF PERFORMANCE BASED
LOGISTICS IN SUPPORT OF WEAPON SYSTEMS
(PROJECT 2004LD-0041)**

1. The Navy has reviewed the draft report and the following comments are provided:

DoDIG Recommendation:

1. We recommend that the Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs), in coordination with the Military Departments:

- a. Finalize written guidance that defines performance-based logistics terminology and the Military Departments' responsibilities for implementing performance-based logistics for weapon systems, sub-systems, and components.
- b. Establish written guidance that defines the requirements, process, and procedures for developing a business case analysis to determine potential performance-based logistics candidates.
- c. Finalize a standardized data collection format that contains all of the data fields determined necessary to accurately track the status of performance-based logistics efforts.
- d. Establish requirements for quarterly reports or updates to all required fields of the standardized data collection format.

DoN Comment:

Concur with the recommendation as written.

DoDIG Recommendation:

2. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, Technology); the Assistant Secretary of the Navy for Research, Development, and Acquisition; The Air Force Deputy Chief of Staff for Installations and Logistics; and the Marine Corps Deputy Commandant, Installations and Logistics:

- a. Issue policies and procedures for implementation of performance-based logistics, to include preparation of a business case analysis that incorporate the policies and procedures that the Assistant Deputy Under Secretary for Logistics Plans and Programs will develop based on Recommendations 1.a, 1.b, and 1.c.
- b. Determine and establish performance-based logistics training requirements for executing PBL initiatives.

Encl (1)

DoN Comment:

Concur with recommendation 2.a as written.

Do not concur with recommendation 2.b, and page 10, paragraph 1, sentence 4. The Navy does not concur that each Service and individual Components within the Services should establish independent PBL training programs/courses. There is far more value to be gained by relying on standardized DAU training. Doing so will ensure that PBL is instituted consistently by Government and industry personnel throughout DoD. Common training also permits dissemination of best practices by personnel from all sectors of DoD and industry. Training by Services and Components should be limited to conferences and seminars, on-the-job training and other informal methods. DAU training should be improved to ensure coverage of PBL practices in the Acquisition, Logistics and Program Management curricula (an effort which is ongoing). Training should also be reviewed to ensure that it is current and not differential to any particular Service. For example, the Navy plans to work with the DAU LOG-235 course manager to ensure that the course (which is currently Army/Air Force-centric) provides examples and cases from maritime programs.

General Report Comments:

Revised

- a. Page 5, Paragraph 2: Change to read: "Currently over 74% of DON ACAT I and II programs are using PBL as their product support strategy. The Naval Inventory Control Point has issued more than 140 PBL contracts or agreements."

Revised
Page 9

- b. Page 8, Paragraph 3, Sentence 1: Change to read: "Many Navy Components have not issued formal guidelines for executing PBL initiatives, although these guidelines are being developed by the Components."

Revised

- c. Page 9, Paragraph 2, Sentence 1: Change to read: "Of the four Navy components, only NAVSEA and NAVAIR have established formal guidance on PBL." Add the following sentences; "NAVAIR issued NAVAIRINST 4081.2, "Policy Guidance for Alternative Logistics Solutions Candidates," on 18 Sep 2000, which provided guidance on PBL execution."

Revised
Page 10

- d. Page 9, Paragraph 3: Change to read: "Other Navy components have begun developing additional guidance on PBL; however, the additional guidance is still in draft format. NAVAIR is preparing to release an update to its PBL instruction. The updated version is NAVAIRINST 4081.2A, "Policy Guidance for Performance Based Logistics Candidates." The purpose of the instruction is to set forth objectives, establish policies, and describe processes and responsibilities for the evaluation and implementation of PBL candidates for all systems under NAVAIR PMA direction and control. The updated instruction includes three enclosures: (1) Performance Based Logistics Process, (2) Performance Based Logistics Process Block Descriptions, and (3) Performance Based Logistics Candidate Analysis Guidebook. NAVSEA is developing NAVSEAINST 4000.7, "NAVSEA

Requirements for Implementation of Performance Based Logistics." That policy is being developed to establish requirements, roles and responsibilities for PBL execution. NAVSEA is also preparing to issue NAVSEAINST 4000.8 to provide BCA guidance along with a NAVSEA Program Manager's Guide to conducting BCAs. In addition, a NAVSEA/NAVSUP "Program Manager's Guide to Implementing PBL" is currently under development. SPAWAR is preparing SPAWARINST 4105.19 "Guidance for Performance Based Logistics in C4ISR Programs," as an implementing directive outlining the roles and responsibilities for PBL in C4ISR programs. The Marine Corps is developing a Marine Corps Order, which depicts requirements for the implementation of Performance Based Logistics and Performance Based Agreements. In support of the Marine Corps Order, a Marine Corps PBL Guidance document is currently being developed to assist personnel responsible for providing program and component management of weapon systems. The Assistant Secretary of the Navy for Research, Development and Acquisition, in conjunction with NAVAIR, NAVSEA, SPAWAR, NAVSUP and the Marine Corps should complete and finalize standardized guidance on PBL that incorporates any new policies and procedures issued by ADUSD(LP&P)."

2. The Navy action officer on this issue is CAPT Basil Gray, telephone 703-697-2018, e-mail basil.gray@navy.mil.

Department of the Air Force Comments



DEPARTMENT OF THE AIRFORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

27 JUL 2004

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL

FROM: HQ USAF/IL

SUBJECT: DoDIG Draft Audit "Report on the Military Departments' Implementation of Performance-Based Logistics in Support of Weapon Systems Projects" (Project No. D2004LD-0041)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

We partially concur with Recommendation One in this report. We concur with ADUSD (LP&P) issuing guidance and standardized reporting formats for PBL activities, but we do not concur with quarterly reporting requirements. We concur with Recommendation Two, for the Services to issue policies and procedures for PBL and to provide training on them. We will accomplish this via the revision of AFI 63-107, "*Integrated Product Support Planning Assessment*" and our planned road shows/mobile training events on the execution of PBL initiatives. The PBL review of our ACAT I and II programs will be provided by 1 Sep 04.

My points of contact are Mr. Jim Hornick, HQ USAF/ILMM, 703-697-3859 or Ms. Jan Mulligan, HQ USAF/ILMM, 706-697-1052.

A handwritten signature in black ink, appearing to read "Michael A. Aimone".
MICHAEL A. AIMONE, P.E.
Asst DCS/Installations & Logistics

Attachment:
Air Force Comments

cc:
SAF/FM

DoDIG Draft Audit Report
Project No. D2004LD-0041
"The Military Departments' Implementation of
Performance-Based Logistics in Weapon Systems"

AIR FORCE COMMENTS TO
THE DoDIG RECOMMENDATIONS

RECOMMENDATION 1: The DoDIG recommended that the Assistant Deputy Under Secretary of Defense (Logistics Plans and Programs), in coordination with the Military Departments:

- a. Finalize written guidance that defines performance-based logistics terminology and the Military Departments' responsibilities for implementing performance-based logistics for weapon systems, sub-systems, and components.
- b. Establish written guidance that defines the requirements, process, and procedures for developing a business case analysis to determine potential performance-based logistics candidates.
- c. Finalize a standardized data collection format that contains all of the data fields determined necessary to accurately track the status of performance-based logistics efforts.
- d. Establish requirements for quarterly reports or updates to all required fields of the standardized data collection format.

AIR FORCE RESPONSE: Partially concur with the recommendation. The Air Force concurs OSD guidance on PBL is desirable and will provide standardization between Services' data collection. We do not concur with quarterly reporting requirements to OSD. Criteria and action for those reports has not been established. Occasional or "as required" reporting of PBL activities is adequate. Quarterly reporting would tax already scarce resources for undetermined benefits.

RECOMMENDATION 2: The DoDIG recommends that the Assistant Secretary of the Army (Acquisition, Logistics, Technology); the Assistant Secretary of the Navy for Research, Development, and Acquisition; and the Air Force Deputy Chief of Staff for Installations and Logistics; and the Marine Corps Deputy Commandant, Installations and Logistics:

- a. Issue policies and procedures for implementation of performance-based logistics, to include preparation of a business case analysis that incorporates the policies and procedures that the Assistant Deputy Under Secretary for Logistics Plans and Programs will develop based on Recommendations 1.a., 1.b., and 1.c.
- b. Determine and establish performance-based logistics training requirements for executing PBL initiatives.

AIR FORCE RESPONSE: Concur with the recommendation. The Air Force is revising AFI 63-107, "Integrated Product Support Planning Assessment" which will address implementation of PBL. We have planned a series of road shows/mobile training events to train on the execution of PBL initiatives, beginning in the fall of 04.

Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Readiness and Logistics Support prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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